

ANNUAL REPORT/1964

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JOHN M. LOCKHART
Executive Vice President

CHARLES E. JOLITZ
Vice President

ROBERT MONTGOMERY
Vice President

A. WAYNE SMITH
Vice President

JOHN L. STRUBBE
Vice President and Secretary

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Vice President

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Assistant Treasurer

JOSEPH C. LAMB
Assistant Treasurer

PARK O. MOTTER
Assistant Treasurer

ROBERT O. ADERS
Assistant Secretary

EARL T. BARNES
Assistant Secretary

GEORGE A. LEONARD
Assistant Secretary

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Executive Vice President and Treasurer,
The Jeffrey Company

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President Emeritus, Ohio University

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Chairman of the Board,
Southland Life Insurance Company

JACOB E. DAVIS
President

FRED C. FOY
Chairman of the Board,
Koppers Company, Inc.

HARRY J. GILLIGAN
Corporate Director

JOSEPH B. HALL
Former Chairman of the Kroger Board
Chairman of the Board,
Federal Reserve Bank of Cleveland

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Chairman of the Board,
The Fifth Third Union Trust Company

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ROBERT MONTGOMERY
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A. T. Kearney & Company, Inc.

T. SPENCER SHORE
President, The Eagle-Picher Company

EDWARD D. SMITH
President,
The First National Bank of Atlanta

COMMON STOCK

TRANSFER AGENTS

The Provident Bank,
Cincinnati

Bankers Trust Company,
New York

REGISTRARS

The Central Trust Company,
Cincinnati

Chemical Bank New York
Trust Company, New York

CUMULATIVE PREFERRED STOCK—SERIES A

TRANSFER AGENT

Bank of America,
Los Angeles

REGISTRAR

Crocker-Citizens National Bank,
Los Angeles



1964 Annual Report

THE KROGER CO.
1014 VINE STREET
CINCINNATI 1, OHIO

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Highlights	1964	1963	Change
SALES	\$2,327,563,209	\$2,102,106,248	+11%
NET INCOME	\$ 27,923,271	\$ 22,078,898	+26%
NET INCOME PER SHARE	\$2.14	\$1.73	+24%
NET WORTH	\$ 235,238,796	\$ 224,592,415	+5%
NET WORTH PER SHARE	\$16.81	\$15.94	+5%
CAPITAL EXPENDITURES	\$ 31,761,261	\$ 31,378,855	+1%
DEPRECIATION AND AMORTIZATION	\$ 22,307,645	\$ 20,026,855	+11%

To Our Shareowners:

Kroger had a record year in 1964. Sales and earnings reached new highs. Dividends were increased.

Earnings

Net income was \$27,923,271 or \$2.14 per share on the shares outstanding at the year end, an increase of 24% over the \$1.73 per share earned in 1963. Earnings are after LIFO charges of 8½¢ per share. The company has included investment tax credits arising out of 1964 capital expenditures in current income instead of deferring and amortizing them. Deferred investment credits attributable to prior years will be amortized as heretofore. Accordingly, the provision for 1964 federal income taxes was reduced by \$1,795,000, equal to 14¢ per share, of which \$1,536,000 applies to 1964 and \$259,000 represents credits of prior years.

Dividend Increase

The quarterly dividend rate was raised from 27½¢ to 30¢ in the fourth quarter. For the 63rd consecutive year Kroger paid dividends out of current earnings. The regular quarterly dividend of 30¢ per common share, payable March 1, 1965, has been declared.

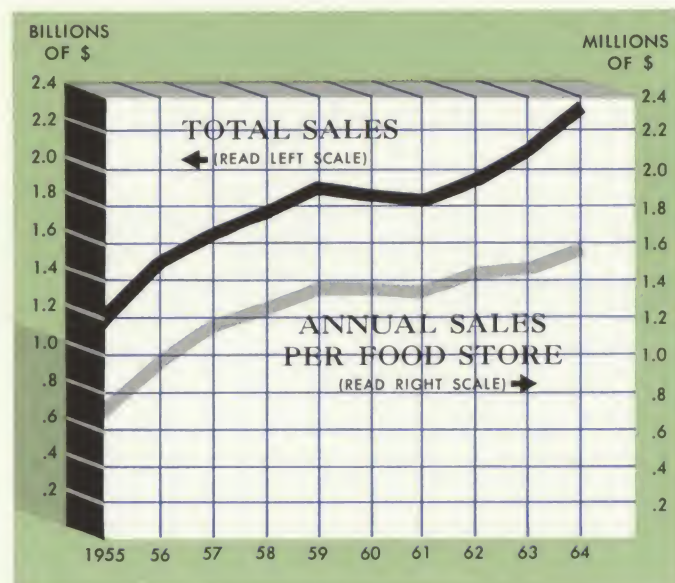
Sales

Sales in 1964 were \$2,327,563,209, an increase of 11% over 1963. Slightly less than one half of the sales increase was attributable to Market Basket stores.

Retail Food Divisions

The significant improvement in sales and earnings of our retail food divisions resulted in large part from continued emphasis on quality merchandise and competitive pricing. More effective expense control also contributed to better earnings. Improved methods and new equipment have been introduced into all areas of our business to enable Kroger people to do their jobs more effectively.

There were 49 new food stores opened during 1964 and 43 old ones closed, bringing the total number to 1,431 at the end of the year. The stores opened in 1964 averaged 14,871 square feet, extending the downward trend in store size for the third year. We are continuing to generate more sales per square foot of store space. During the year 107 existing stores were remodeled.



Experience thus far indicates that Market Basket has been an excellent acquisition for Kroger. We now have 61 stores in Southern California, 5 more than when we entered that rapidly growing market in late 1963. Expansion of Market Basket will proceed at a faster pace in 1965.

Drug Stores

We are pleased to report that, as forecasted a year ago, the drug division made a modest contribution to 1964 profits. This goal was achieved while supporting a vigorous growth program which brought the number of stores to 146 at year end. It is expected that income from drug operations will be substantially greater in 1965 even though the new store program will be accelerated.

Food Processing

The modernization program of our Processed Foods Division is progressing as scheduled. An addition to the distribution center at Springdale, Ohio, was completed in 1964. In early 1965, a new dairy and ice cream plant and a delicatessen plant will be in operation, replacing older facilities in Cincinnati and Dayton. The modernization of our candy operation will be completed in 1966 with a new plant located in Springdale.

Financial Position

Cash and marketable securities were \$86,067,723 at the year end. Net working capital was \$103,123,928. Capital expenditures were \$31,761,261, of which \$4,149,092 was for store land and buildings, \$13,605,396 for store equipment and improvements, \$1,961,539 for distribution centers, \$5,882,737 for transportation equipment, \$5,764,335 for manufacturing facilities and \$398,162 for other items. Depreciation and amortization totaled \$22,307,645.

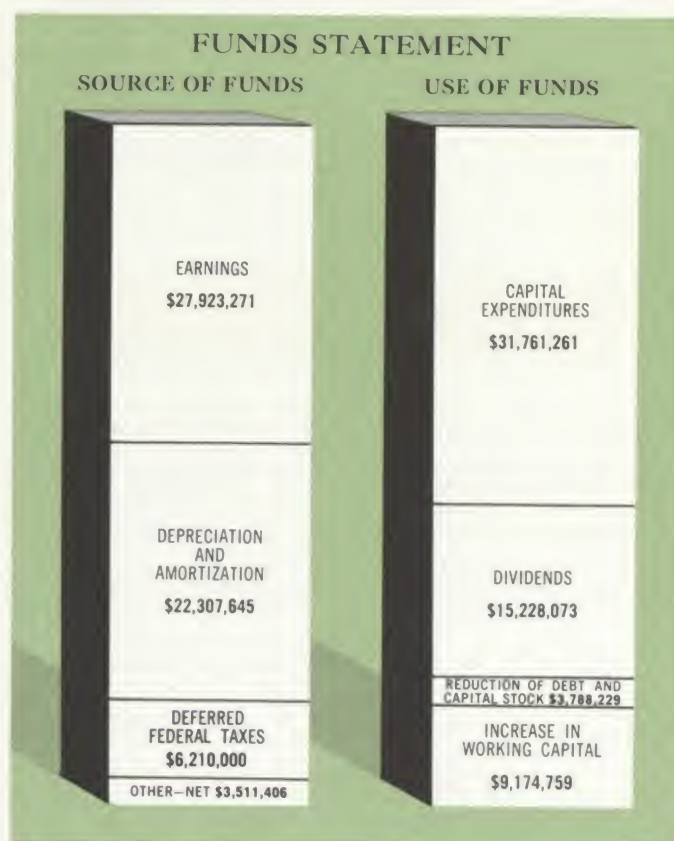
Directors and Management

The Chairman of the Board, Joseph B. Hall, retired at the end of 1964. His thirty-four years with Kroger included sixteen years as President and three as Chairman of the Board. Under Mr. Hall's leadership, Kroger sales rose from \$567,487,547 in 1946 to more than four times that figure in 1964. His many contributions to the growth and progress of the company were significant and lasting. As a member of the Board of Directors, Mr. Hall will continue to give the company the benefit of his wisdom and experience.

Harry J. Gilligan, who has been a member of the Board of Directors for thirty years, will retire at annual meeting time. Through the years he has been loyal and devoted in his support and service. His participation in the affairs of the company will be missed.

During the past year Robert Montgomery was elected a Director. A. Wayne Smith, formerly head of the St. Louis Division, was elected a Vice President. As Regional Vice Presidents, Mr. Montgomery and Mr. Smith are responsible for the 27 retail food divisions.

Charles E. Jolitz, Vice President of Merchandising and Manufacturing, has been recommended by management for election to the Board of Directors at the annual meeting in March.



Many important promotions were made during the year. A number of our younger executives have been moved into positions of greater responsibility, assuring a continuation of strong management at all levels of the business. Continuing emphasis on executive development is one of our most important responsibilities.

Outlook For 1965

We believe 1965 will be a good year for Kroger. Our new food and drug store programs will be enlarged and accelerated. Your company should continue to move ahead.

Respectfully submitted,

McOTE Davis
President

February 5, 1965



Consolidated Balance Sheet

Assets

	<u>Dec. 26, 1964</u>	<u>Dec. 28, 1963</u>
Cash	\$ 54,202,675	\$ 50,679,173
Marketable securities, at cost.....	31,865,048	15,494,697
Receivables	14,100,982	11,802,767
Inventories (Note 1).....	169,500,867	156,420,181
Store and general supplies.....	7,347,555	6,955,002
Prepaid and miscellaneous assets.....	<u>5,975,325</u>	<u>5,245,647</u>
TOTAL CURRENT ASSETS.....	282,992,452	246,597,467
Investment in unconsolidated subsidiary, at cost (Note 2).....	778,459	2,758,337
Land, buildings and equipment, at cost or less.....	272,338,949	255,575,802
Less allowance for depreciation.....	(118,098,924)	(108,401,030)
Leaseholds and leasehold improvements, net.....	44,117,107	43,779,850
Excess cost of investment in subsidiaries over net assets acquired...	<u>13,286,339</u>	<u>11,921,764</u>
TOTAL ASSETS.....	\$495,414,382	\$452,232,190

December 26, 1964 and December 28, 1963

Liabilities

	<u>Dec. 26, 1964</u>	<u>Dec. 28, 1963</u>
Accounts payable	\$113,287,193	\$ 93,504,610
Accrued expenses	44,846,084	41,045,394
Provision for federal taxes.....	20,024,247	16,507,026
Long-term indebtedness (Note 3).....	1,711,000	1,591,268
TOTAL CURRENT LIABILITIES.....	179,868,524	152,648,298
Long-term indebtedness (Note 3).....	41,234,292	42,973,704
Deferred federal income taxes.....	29,780,000	23,570,000
Deferred investment credit.....	2,091,000	2,350,000
Employees' benefit fund.....	7,159,013	5,885,217
Minority interest in subsidiary.....	42,757	212,556
CAPITAL		
Preferred capital stock:		
First preferred, par \$100.....	24,000	24,700
Cumulative preferred, voting, par \$50 (Notes 4, 5 and 6)		
Authorized: 750,000 shares		
Outstanding: Series A; 1964, 472,669 shares;		
1963, 464,351 shares.....	23,633,450	23,217,550
Common capital stock, par \$1 (Notes 5 and 6)		
Authorized: 18,000,000 shares		
Outstanding: 1964, 12,585,312 shares after deducting 252,199		
shares in treasury at cost, \$7,718,377; 1963, 12,633,546		
shares after deducting 152,771 shares in treasury at cost,		
\$4,404,937	53,740,986	56,205,003
Accumulated earnings (Note 3).....	157,840,360	145,145,162
TOTAL CAPITAL	235,238,796	224,592,415
TOTAL LIABILITIES AND CAPITAL.....	\$495,414,382	\$452,232,190

Consolidated Statement of Income

Years Ended December 26, 1964 and December 28, 1963

	1964	1963
Sales	\$2,327,563,209	\$2,102,106,248
Cost of sales.....	1,866,432,021	1,688,420,667
Operating, general and administrative expenses.....	404,626,601	366,508,504
Total.....	<u>2,271,058,622</u>	<u>2,054,929,171</u>
Operating profit.....	56,504,587	47,177,077
Interest expense.....	2,055,316	2,093,179
Income before federal taxes on income.....	54,449,271	45,083,898
Federal taxes on income.....	26,526,000	23,005,000
Net income.....	\$ 27,923,271	\$ 22,078,898

Consolidated Statement of Accumulated Earnings

Year Ended December 26, 1964

Accumulated earnings—December 28, 1963.....		\$ 145,145,162
Net income for 1964.....		<u>27,923,271</u>
		173,068,433
Dividends:		
Preferred	\$ 1,017,556	
Common	<u>14,210,517</u>	
		15,228,073
Accumulated earnings—December 26, 1964 (Note 3).....		\$ 157,840,360

Notes to Financial Statements

1. Inventories are valued at the lower of cost or market, and in part are on the Lifo basis.
2. All wholly-owned subsidiaries and Market Basket (a 99.7% owned subsidiary) have been included in consolidation. The company's equity in the net assets of the unconsolidated subsidiary amounted to \$4,559,090 at December 26, 1964, and its equity in earnings for 1964 amounted to \$371,132. No dividend was received from the unconsolidated subsidiary in 1964. The company's interest in an unconsolidated subsidiary was disposed of during 1964 at its equity in the subsidiary's net assets.
3. Long-term indebtedness:

3.1% notes maturing October 1, 1971.....	\$11,200,000
4¾% notes, 70% maturing November 5, 1978, 30% maturing March 2, 1979	9,650,000
4.8% notes maturing October 19, 1981.....	15,000,000
4.5% notes maturing November 13, 1966.....	3,000,000
5½% notes maturing November 1, 1977.....	1,800,000
Other	2,295,292
	42,945,292
Less, amounts due within one year.....	1,711,000
	\$41,234,292

Under certain of the loan agreements, payments of cash dividends are limited. At December 26, 1964, accumulated earnings unrestricted, under the agreement carrying the maximum limitation, amounted to \$65,161,621.

4. As of December 26, 1964, 488,252 shares of the authorized Cumulative Preferred Shares are designated Series A. These shares provide for annual dividends of \$2.15 per share; conversion into Common Stock, until September 30, 1973, at one and one-half shares for each share of preferred; and redemption at \$55 per share from October 1, 1966, to September 30, 1968, and \$50 per share thereafter, plus accumulated and unpaid dividends.
5. Options to officers and executives to purchase 379,093 shares of Kroger common stock were in force at December 28, 1963. Option transactions during the year 1964 may be summarized as follows: granted 15,500 shares; exercised 51,170 shares; expired or cancelled 7,820 shares. Options to purchase 335,603 shares were in force at December 26, 1964. Shares available for option at the beginning and close of the year were 49,500 and 35,800, respectively. Options for 128,151 shares were exercisable at December 26, 1964. Options to Market Basket employees to purchase 16,604 Kroger Cumulative Preferred Shares, Series A were in force at December 28, 1963. Option transactions during the year

1964 may be summarized as follows: exercised 6,112 shares; expired or cancelled 3,434 shares. Options to purchase 7,058 shares were in force at December 26, 1964. There were no shares available for option at the beginning or close of the year. Options for 1,633 shares were exercisable at December 26, 1964.

6. At December 26, 1964, 719,590 shares of authorized Common Stock are reserved for conversion of Cumulative Preferred Shares, Series A.
7. The company operates principally in leased premises. Aggregate minimum annual rentals are approximately \$40,320,000 of which \$27,810,000 relates to leases outstanding at December 26, 1964, and expiring subsequent to 1969. Lease terms generally range from 10 to 25 years with options of renewal for additional periods. Options provide in some cases for renewals at reduced rentals and/or the right to purchase.

Report of Certified Public Accountants

LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
The Kroger Co.
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of December 26, 1964, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at December 26, 1964, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year, except for the change in accounting for investment tax credits as described in the President's letter, in which we concur.

Cincinnati, Ohio
February 5, 1965

Lybrand, Ross Bros. & Montgomery



10 Year Statistical Summary

For the Year

	1964	1963	1962	1961
SALES.....	\$2,327,563,209	\$2,102,106,248	\$1,947,570,909	\$1,842,342,667
NET INCOME BEFORE TAXES.....	\$ 54,449,271	\$ 45,083,898	\$ 44,219,055	\$ 35,035,685
NET INCOME.....	\$ 27,923,271	\$ 22,078,898	\$ 20,424,055	\$ 16,952,685
NET INCOME PER SHARE (1).....	\$2.14	\$1.73	\$1.62	\$1.34
DIVIDENDS PER SHARE (2).....	\$1.12 ½	\$1.10	\$1.10	\$1.10
RETAINED EARNINGS.....	\$ 12,695,198	\$ 7,910,912	\$ 6,578,540	\$ 3,094,323

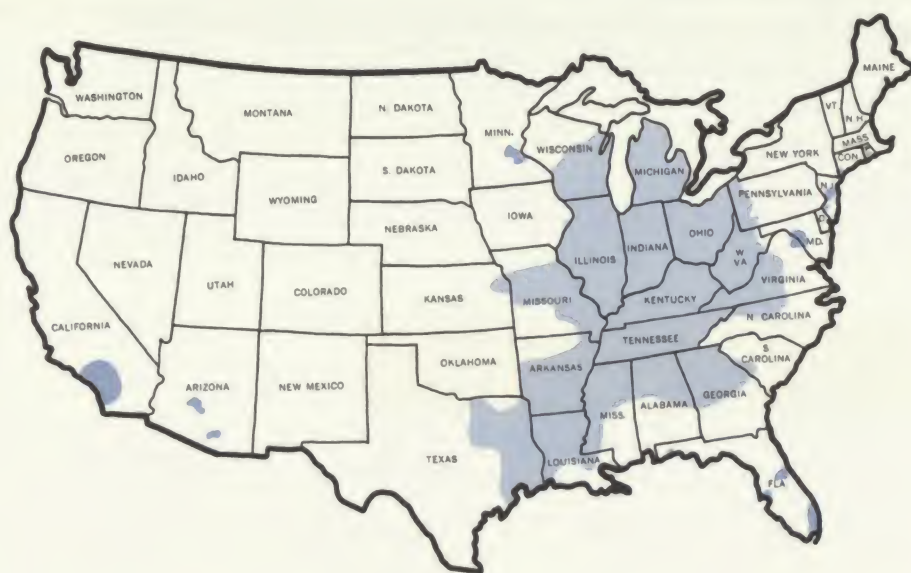
At the Year End

CASH.....	\$ 54,202,675	\$ 50,679,173	\$ 55,925,833	\$ 64,004,006
INVENTORIES.....	\$ 169,500,867	\$ 156,420,181	\$ 131,832,323	\$ 121,395,266
NET WORKING CAPITAL.....	\$ 103,123,928	\$ 93,949,169	\$ 82,085,737	\$ 95,694,906
NET FIXED ASSETS.....	\$ 198,357,132	\$ 190,954,622	\$ 174,684,454	\$ 169,967,219
ACCUMULATED EARNINGS.....	\$ 157,840,360	\$ 145,145,162	\$ 137,234,250	\$ 130,655,710
NET WORTH.....	\$ 235,238,796	\$ 224,592,415	\$ 194,303,798	\$ 188,884,685
NET WORTH PER SHARE (1).....	\$16.81	\$15.94	\$15.39	\$14.96
NUMBER OF SHAREOWNERS.....	41,602	42,904	39,936	36,368
NUMBER OF EMPLOYEES.....	39,785	39,130	37,440	37,308
NUMBER OF FOOD STORES.....	1,431	1,424	1,364	1,354
ANNUAL SALES PER FOOD STORE....	\$ 1,582,359	\$ 1,476,223	\$ 1,433,091	\$ 1,349,702
TOTAL FOOD STORE AREA (Sq. Ft.)..	22,295,587	22,026,900	19,841,911	18,939,624

(1) Adjusted for 3 for 1 split in 1958 and 4% common stock dividends in 1956 and 1957.

(2) Adjusted for 3 for 1 split in 1958.

(3) Plus 4% stock dividend.



1960	1959	1958	1957	1956	1955
\$1,870,289,637	\$1,911,902,467	\$1,776,175,147	\$1,674,123,593	\$1,492,552,233	\$1,219,474,812
\$ 48,218,029	\$ 54,137,920	\$ 44,432,930	\$ 41,505,207	\$ 34,515,450	\$ 27,994,575
\$ 23,478,029	\$ 25,516,920	\$ 21,629,930	\$ 20,635,207	\$ 17,071,250	\$ 14,368,292
\$1.87	\$2.06	\$1.76	\$1.70	\$1.41	\$1.20
\$1.10	\$.95	\$.72 1/2	\$.66 2/3(3)	\$.66 2/3(3)	\$.66 2/3
\$ 9,732,605	\$ 13,751,230	\$ 12,739,263	\$ 12,866,895	\$ 9,641,277	\$ 6,962,639
\$ 47,354,159	\$ 52,865,583	\$ 52,566,148	\$ 42,927,467	\$ 41,518,152	\$ 40,696,076
\$ 118,783,384	\$ 118,862,668	\$ 116,628,932	\$ 111,474,382	\$ 106,274,996	\$ 95,112,775
\$ 77,681,795	\$ 93,854,922	\$ 86,679,309	\$ 73,136,938	\$ 71,945,596	\$ 79,180,095
\$ 164,214,971	\$ 145,970,482	\$ 130,504,808	\$ 108,866,641	\$ 95,528,379	\$ 79,616,588
\$ 127,561,387	\$ 117,828,782	\$ 104,077,552	\$ 91,338,289	\$ 87,656,514	\$ 85,163,541
\$ 185,077,175	\$ 173,461,086	\$ 158,573,593	\$ 143,730,410	\$ 130,159,964	\$ 119,910,406
\$14.75	\$13.97	\$12.87	\$11.83	\$10.77	\$ 9.97
35,663	34,972	28,514	26,583	26,621	26,596
39,691	40,157	40,500	39,389	36,807	33,705
1,372	1,393	1,428	1,421	1,476	1,587
\$ 1,357,249	\$ 1,357,885	\$ 1,257,914	\$ 1,157,006	\$ 982,589	\$ 740,871
18,264,615	17,392,580	16,805,232	15,092,774	13,918,774	12,750,326



THE KROGER CO./1964